

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 L-03 H-02 PA-02 DOE-11 SOE-02 /130 W
-----065086 281946Z /43

R 281801Z FEB 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6280
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING FEB. 28)

REF.: BONN 3186

1. FOREIGN EXCHANGE MARKET:
THE DOLLAR/DEUTSCHEMARK EXCHANGE RATE, A TOPIC STILL
MUCH IN PUBLIC VIEW IN THE FRG, FLUCTUATED RATHER
SHARPLY DURING THE PERIOD. IN RECENT INTERVIEWS AND
STATEMENTS FROM THE BUNDESBANK'S EMMINGER AND POEHL
AND ECONOMICS MINISTER LAMBSDORFF THE MESSAGE HAS COME
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THROUGH CLEARLY THAT DOLLAR IS CONSIDERED UNDERVALUED
AND THUS IS POTENTIALLY INJURIOUS OF THE GERMAN ECONOMY
AND, ACCORDING TO LAMBSDORFF, WORLD TRADE. POEHL,
AND TO A LESSER EXTENT THE OTHERS, HAS INDICATED THAT
CONDITIONS ARE RIPE FOR A STRENGTHENING OF THE DOLLAR
POINTING ESPECIALLY TO INTEREST RATE DIFFERENTIALS AND
RECOMMENDS FINANCING A PART OF THE US BUDGET DEFICIT

ON INTERNATIONAL MONEY MARKETS AS POSSIBLE REMEDY.
EDITORIAL AND FINANCIAL PRESS REPORTING ON RECENT
DOLLAR/DM DEVELOPMENTS NOW CONCENTRATE ON THE "PSYCHO-
LOGICAL" 2:1 BARRIER. RECENT CONTACTS WITH FOREIGN
EXCHANGE DEALERS INDICATE THAT THEY ARE LIKEWISE
FOCUSED. FOR THE PERIOD, FRANKFURT SPOT AND FORWARD
DOLLAR RATES DEVELOPED AS FOLLOWS:

	SPOT DOLLARS		FORWARD DOLLARS		
	(IN DM PER \$1.--)		(IN PCT. PER ANNUM)		
	OPENING	CLOSING	ONE-MONTH	THREE-MONTH	
FEB. 21	2.0370	2.0421	2.0440	-3.5	-4.2
22	2.0365	2.0423	2.0400	-3.7	-4.0
23	2.0355	2.0220	2.0220	-3.6	-4.3
24	2.0195	2.0175	2.0210	-4.2	-4.2
27	2.0275	2.0412	2.0550	-3.9	-4.1
28	2.0428	2.0360	N.A.	N.A.	N.A.

2. TAX REVENUE ESTIMATES FOR 1979 REVISED DOWNWARD:
THE PRELIMINARY AUGUST 1977 TAX REVENUE ESTIMATES FOR
1979 HAVE BEEN REVISED DOWNWARD BY SOME DM 18 BILLION,
WITH FEDERAL REVENUES ACCOUNTING FOR DM 4.5 BILLION OF
THE TOTAL REDUCTION. THE REVISION REFLECTS THE LATE
1977 TAX RELIEF PROGRAM AS WELL AS REDUCED ECONOMIC
GROWTH ESTIMATES. WHEREAS LAST YEAR NOMINAL GNP IN
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1979 WAS STILL EXPECTED TO EXCEED 1978 LEVELS BY 7.8
PERCENT, RECENT REVENUE ESTIMATES ASSUME A MORE MODEST
7.1 PERCENT GNP GROWTH RATE FOR NEXT YEAR. THE NEW
OFFICIAL REVENUE ESTIMATES FOR 1979 ARE SHOWN BELOW,
ALONG WITH CURRENT ESTIMATES FOR 1978.

PUBLIC SECTOR TAX REVENUE ESTIMATES

(BILLION DM)

1978 1979

FEDERAL GOVERNMENT	151.0	161.4
STATES	107.4	115.8
MUNICIPALITIES	42.9	45.6
EQUALIZATION OF		

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FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 L-03 H-02 PA-02 DOE-11 SOE-02 /130 W
-----065260 281945Z /43

R 281815Z FEB 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6281
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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BURDENS FUND	1.0	0.3
EEC	9.4	10.6

TOTAL	311.7	333.7
(INCREASE OVER PREVIOUS		
YEAR IN PERCENT)	(4.1)	(7.1)

3. BUNDESBANK FOREIGN POSITION:
DURING THE PERIOD FEBRUARY 8-15 THE BUNDESBANK'S NET
FOREIGN POSITION DECLINED BY DM 0.3 BILLION TO DM 89.4
BILLION. FOREIGN EXCHANGE HOLDINGS INCREASED BY DM 48
MILLION AND FOREIGN LIABILITIES BY ABOUT DM 80 MILLION.
CLAIMS AGAINST THE EUROPEAN MONETARY FUND DECLINED BY
DM 213 MILLION, CREDITS TO FOREIGN MONETARY AUTHORITIES
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BY DM 46 MILLION AND GERMANY'S IMF GOLD TRANCHE POSI-
TION FELL BY DM 6 MILLION.

4. BANK LIQUIDITY:

DURING THE SAME PERIOD BANK LIQUIDITY INCREASED BY DM 1.0 BILLION. A MAJOR FACTOR INCREASING LIQUIDITY WAS THE USUAL DECLINE IN CURRENCY IN CIRCULATION IN THE SECOND WEEK OF THE MONTH (DM 0.9 BILLION). OTHER UNIDENTIFIED FACTORS INCREASED LIQUIDITY BY DM 2.4 BILLION. BASIC FACTORS REDUCING LIQUIDITY WERE FIRST PAYMENTS FOR THE MINOR MID-FEBRUARY TAX DATE AND BORROWINGS OF PUBLIC AUTHORITIES. THIS ENABLED THE FEDERAL GOVERNMENT TO REDUCE ITS CREDIT TAKEN UP AT THE BUNDESBANK BY DM 0.6 BILLION (TO DM 0.5 BILLION) AND TO INCREASE BUNDESBANK ASSETS BY DM 0.1 BILLION (TO DM 0.2 BILLION). ALSO DUE TO THE ABOVE FACTORS BUNDESBANK ASSETS OF STATE GOVERNMENTS INCREASED BY DM 1.2 BILLION (TO DM 4.8 BILLION). LIQUIDITY WAS FURTHER REDUCED BY THE ABOVE-MENTIONED DECLINE IN THE BUNDESBANK'S FOREIGN POSITION AND CONTINUED SALES OF MONEY MARKET PAPER BY THE BUNDESBANK OF DM 0.1 BILLION. SINCE THE BUNDESBANK ACTIVATED SUCH SALES IN MID-JANUARY IT SOLD DM 2.9 BILLION OF SUCH PAPER MOPPING UP LIQUIDITY IN THE SAME AMOUNT. THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE REDISCOUNT BORROWINGS BY DM 0.9 BILLION TO DM 16.2 BILLION AND LOMBARD BORROWINGS BY DM 0.1 BILLION TO DM 83 MILLION ONLY.

5. MONEY MARKET:

CALL MONEY RATES ROSE MODERATELY DURING THE PERIOD, STANDING PRESENTLY AT ABOUT THE BUNDESBANK'S LOMBARD LENDING RATE. ONE AND THREE-MONTH MONEY RATES ALSO ROSE SLIGHTLY OVER THE END OF THE PREVIOUS REPORTING UNCLASSIFIED

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PERIOD.

CALL MONEY ONE-MONTH THREE-MONTH

	CALL MONEY	ONE-MONTH	THREE-MONTH
FEB. 21	3.45-3.55	3.30	3.45
22	3.50-3.60	3.30	3.45
23	3.50-3.60	3.30	3.45
24	3.50-3.60	3.30	3.45
27	3.50-3.60	3.30	3.45

6. BOND MARKET:

ON THE MARKET FOR DOMESTIC BONDS PRICE INCREASES CONTINUED. CURRENTLY, ACCORDING TO THE PRESS, AVERAGE YIELDS OF OUTSTANDING DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY ARE AS FOLLOWS:

REMAINING

MATURITY

(YEARS) 1 3 5 7 9 10
FEB. 24 3.75 4.50 4.95 5.40 5.65 5.75
FEB. 17 3.80 4.55 5.05 5.45 5.75 5.85

IN VIEW OF THE FAVORABLE MARKET CONDITIONS THE FEDERAL GOVERNMENT SOLD DM 2.2 BILLION OF SCHULDSCHINE (PROMISSORY NOTES) WITH MATURITIES RANGING FROM 8-20 YEARS. REPORTEDLY THE YIELDS OF SUCH NOTES WERE 5.45 PERCENT (8-YEAR NOTES), 5.73 PERCENT (10 YEARS), 5.97 PERCENT (15 YEARS) AND 6.12 PERCENT (20 YEARS). THE NEXT DOMESTIC LOAN WILL BE A DM 400 MILLION LOAN OF THE LASTENAUSGLEICHSBANK (EQUALISATION OF BURDENS BANK). THE LOAN WILL CARRY A COUPON OF 5 1/2 PERCENT, AN ISSUE PRICE OF 100 AND A MATURITY OF 10 YEARS.

7. FOREIGN DM BONDS:

THE BANCO NACIONAL DO DESENVOLVIMENTO ECONOMICO (BNDE) HAS ISSUED A DM 200 MILLION LOAN (COUPON 6 3/4 UNCLASSIFIED

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INFO OCT-01 EA-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 SS-15 STR-07 OMB-01 CEA-01 L-03 H-02 PA-02
DOE-11 SOE-02 /104 W
-----065363 281943Z /43

R 281829Z FEB 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6282
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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AMCONSUL FRANKFURT

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PERCENT, ISSUE PRICE 100, MATURITY 8 YEARS). THE EUROPEAN INVESTMENT BANK (EIB) FLOATED A DM 250 MILLION LOAN (COUPON 5 1/4 PERCENT, ISSUE PRICE 99 1/2, 12 YEARS WITH REPAYMENT TO BEGIN AFTER 6 YEARS). THE VOLUME OF THE LOAN WAS INCREASED FROM DM 200 MILLION TO DM 250 MILLION, AND THE COUPON WAS REDUCED FROM 5 1/2 PERCENT TO 5 1/4 PERCENT. THE JAPANESE NISSHIN STEEL WILL OFFER CONVERTIBLE BONDS OF DM 50 MILLION. THE COUPON WILL PROBABLY BE 4 1/4 PERCENT, THE MATURITY 8 YEARS AND THE ISSUE PRICE 100. BEGINNING JULY 1, 1978, THE BONDS CAN BE CONVERTED INTO NISSHIN STEEL COMMON STOCK. TRINIDAD AND TOBAGO PRIVATELY PLACED BONDS OF DM 75 MILLION (MATURITY 5 YEARS, COUPON 6 PERCENT). THE COUPON OF THE DM 200 MILLION LOAN OF VENEZUELA (SEE BONN 3186) WILL PROBABLY BE 6 PERCENT, UNCLASSIFIED

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THE MATURITY 10 YEARS WITH REPAYMENT TO BEGIN AFTER 5 YEARS.

IN MARCH FOREIGN DM BONDS OF DM 1.2-1.3 BILLION ARE PLANNED. BORROWERS WILL INCLUDE THE PHILIPPINES (DM 100 MILLION), THE AUSTRIAN TAUERNAUTOBAHN (DM 70 MILLION), THE MEXICAN COMISION FEDERAL DE ELECTRICIDAD (CFE, DM 100 - 150 MILLION) AND THE SOUTH AFRICAN BROADCASTING (PRIVATE PLACEMENT, DM 25 MILLION).

8. ECONOMIC INDICATORS PUBLISHED THIS WEEK:
SEASONALLY ADJUSTED BUNDESBANK DATA

OCT NOV DEC JAN
--- --- --- ---
RETAIL SALES VOLUME
(1970 EQUALS 100) 117 119 - -
VOLUME OF TRADE
(DM BILLION)
EXPORTS 17.33 16.92 17.27 -
IMPORTS 14.54 14.80 15.85 -
BUILDING PERMITS
FOR HOUSING UNITS
(1970 EQUALS 100) 86 75 90 -
INDUSTRIAL WAGES

PER EMPLOYEE

(1970 EQUALS 100) 195 199 - -

LIVING COSTS

(1970 EQUALS 100) 147.6 147.7 148.1 148.3

INDUSTRIAL PRODUCER

PRICES

(1970 EQUALS 100) 145.1 145.4 145.7 -

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AGRICULTURAL

PRODUCER PRICES

(1970 EQUALS 100) 142.0 141.3 143.3 -

NON-SEASONALLY ADJUSTED FIGURES

OCT NOV DEC JAN

INDUSTRIAL PRODUCER

PRICES

(PCT. CHANGE FROM

PREVIOUS YEAR'S LEVEL 1.5 1.7 1.7 1.3

NEWLY LICENSED

PASSENGER CARS

(THOUSANDS) 199.2 186.3 182.1 206.0

(PCT. CHANGE

FROM PREVIOUS

YEAR'S LEVEL) 8.0 5.2 18.0 13.5

ACCORDING TO THE LATEST BUSINESS SURVEY DATA OF THE
IFO ECONOMIC RESEARCH INSTITUTE, APPRAISALS OF BUSINESS
TRENDS BY FRG MANUFACTURERS CONTINUE PREDOMINANTLY
NEGATIVE, AS SHOWN BELOW.

EXCESS OF PESSIMISTIC OVER OPTIMISTIC RESPONDENTS
IN PERCENT

SEPT. OCT. NOV. DEC. JAN.

SUBJECT OF

APPRAISAL

CURRENT BUSINESS

SITUATION 23 24 22 22 21

PROSPECTS FOR THE

NEXT SIX MONTHS 17 19 18 16 9

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN EXCHANGE RATES, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 28 feb 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BONN03680
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780092-0489
Format: TEL
From: BONN USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t1978025/aaaaaebv.tel
Line Count: 379
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 4accf2d8-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
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Retention: 0
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Review Content Flags:
Review Date: 29 mar 2005
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Review Exemptions: n/a
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Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3581339
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL DEVELOPMENTS (WEEK ENDING FEB. 28)
TAGS: EFIN, GE
To: STATE TRSY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/4accf2d8-c288-dd11-92da-001cc4696bcc
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20 Mar 2014
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